Phoenix-Mesa
Gateway
Airport

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CHAPTER 7
FINANICAL FEASIBILITY

Introduction

This section presents a financial analysis of the Capital Improvement Program (CIP) for Phoenix-Mesa Gateway Airport (IWA or the Airport), as presented in the previous **Facilities Implementation Plan Chapter**. This chapter describes the financial framework of the Phoenix-Mesa Gateway Airport Authority (PMGAA), including the airline rates and charges methodology as specified in the approved Airport's Airport Rates and Charges, which became effective on September 1, 2019. It also includes an analysis of PMGAA's historical revenues and expenses for Fiscal Years (FYs) 2015 through 2019, and projections of anticipated CIP funding sources, as well as operating revenues and operating expenses for FYs 2020 through 2030.

The potential capital improvements necessary to accommodate the future needs of IWA were presented in the **Facilities Implementation Plan Chapter** in four phases: Phase I (1-5 years), Phase II (6-10 years), Phase III (11-20 years), and Phase IV (20+ years). The financial analysis and funding plan presented in this chapter address the estimated capital costs for Phase I and Phase II, together estimated to cover the years FYs 2021 – 2030. Due to the complex nature of changing circumstances for CIP funding sources in the long-term, estimates of the funding of capital costs beyond FY 2030 (Phase III and Phase IV) are considered speculative at this point, and therefore are not presented in this chapter.

The financial projections reflect the anticipated effects of funding the CIP, to the extent of the availability of the identified funding sources through FY 2030. The funding plan anticipates the use of Federal Aviation Administration (FAA) Airport Improvement Program (AIP) grants; Passenger Facility Charges (PFCs); Arizona Department of Transportation (ADOT) grant funds; Member Government Contributions; and Other funds. Rental car Customer Facility Charges (CFCs), monies from the Operating Fund, and future lease revenues are also described in this chapter as a potential funding source for capital costs beyond FY 2030. The financial analysis uses the approved air traffic forecast contained in **Aviation Activity Forecasts Chapter** as a basis for estimating operating revenues, operating expenses, and CIP funding sources through FY 2030.

PMGAA's Organization and Financial Framework

PMGAA owns and operates the Airport. PMGAA was established on May 19, 1994, and it is made up of leadership from the cities of Mesa, Phoenix, and Apache Junction, the towns of Queen Creek and Gilbert, and the Gila River Indian Community (collectively known as the Member Governments). PMGAA Board of

Directors is composed of elected officials from neighboring cities and tribal government. PMGAA is separate from other state and local governments, and PMGAA is responsible for the Airport and its financial position. PMGAA earns revenues from aeronautical and non-aeronautical activities. In addition to traditional fees received for the use of the Airport facilities, PMGAA owns and operates a fixed base fueling operation.

PMGAA's FY begins on July 1 and ends on June 30 of the following calendar year. The audited financial statements for FY 2018, the most recent fiscal year for which audited financial statements are available, show that as of June 30, 2018 (the end date of the FY), PMGAA had Total Assets of $289.8 million, Total Liabilities of $32.6 million, and Net Assets of $257.2 million.

Proposed Capital Improvement Program

Table 7-1: Estimated Capital Costs and Funding Sources presents the estimated CIP project costs and funding sources for the recommended list of projects as noted in the **Facilities Implementation Plan Chapter**.

Table 7-1: Estimated Capital Costs and Funding Sources

		Total	AIP		PFCs	ADOT Grants	Member Govt.	Other
			Entitlement	Discretionary				
Phase I - FYs 2021 - 2025								
A1	Reconstruct sections of Runway 12R/30L	$ 24,960,000	$ 3,636,000	$ 19,092,576	$ -	$ 1,115,712	$ 1,115,712	$ -
A2	Taxiway Whiskey-Design/Construct	832,000	-	-	-	748,800	83,200	-
A3	Ellsworth Channel Relocation-Construction	11,897,600	-	-	11,897,600	-	-	-
A4	Employee Parking Lot and Cell Phone Lot Improvements	691,600	-	-	-	-	691,600	-
A5	Safety Management System	324,480	-	-	324,480	-	-	-
A6	Taxiway Golf Realignment - Design/Construct	12,274,800	3,672,360	7,505,073	-	548,684	548,684	-
A7	Eastside Airport Terminal Access Roads - Design/Construct	18,149,771	-	-	10,000,000	709,362	-	7,440,409
A8	Terminal Annex Redevelopment - Design/Construct	15,128,451	-	8,954,379	-	400,260	5,773,812	-
A9	Center Runway Section 30	9,320,400	3,709,084	4,778,073	-	416,622	416,622	-
A10	Parallel Taxiway West of RW 12C/30C - Design/Construct	20,147,600	3,746,174	14,600,230	-	900,598	900,598	-
A11	Aircraft Storage Apron (RON/ROD) - Design/Construct	603,680	-	-	-	-	603,680	-
Total Projects for FYs 2020 - 2025		**$ 114,330,382**	**$ 14,763,618**	**$ 54,930,331**	**$ 22,222,080**	**$ 4,840,037**	**$ 10,133,907**	**$ 7,440,409**
Phase II - FYs 2026 - 2030								
B1	Fuel Farm Expansion - Design/Construct	$ 1,873,362	$ -	$ -	$ -	$ -	$ 1,873,362	$ -
B2	Extend Runway 12L/30R with Taxiway	9,600,640	3,783,636	4,958,707	-	429,149	429,149	-
B3	Mid-Field Connectors Project - Design/Construct	10,430,560	-	9,498,068	-	466,246	466,246	-
B4	ARFF Truck	1,026,000	-	-	1,026,000	-	-	-
B5	Relocate Compass Calibration Pad - Design/Construct	1,414,040	-	-	-	-	-	1,414,040
B6	Reconstruct Runway 12C/30C and LED Lighting Upgrade	14,532,720	3,821,473	9,412,022	-	649,613	649,613	-
B7	Fuel Farm Expansion - Design/Construct	1,938,740	-	-	-	-	1,938,740	-
B8	Electrical Lighting Vault Replacement/Generators & 12C/30R LED Upgrade	12,596,700	7,835,551	3,635,004	-	563,072	563,072	-
B9	Alpha Apron Phase 3 - Design/Construction	6,062,400	-	-	6,062,400	-	-	-
B10	Increase Tower Height/Relocate Existing ASR-8	15,860,000	-	-	-	-	-	15,860,000
B11	Maintenance Run-Up Area with Blast Fence - Design/Construct	1,579,900	-	-	-	-	1,579,900	-
B12	Runway Magnetic Change - Marking/Signage	336,000	-	305,962	-	15,019	15,019	-
Total Projects for FYs 2026 - 2030		**$ 77,251,062**	**$ 15,440,660**	**$ 27,809,762**	**$ 7,088,400**	**$ 2,123,099**	**$ 7,515,101**	**$ 17,274,040**
Total Projects for FYs 2021 - 2030		**$ 191,581,444**	**$ 30,204,278**	**$ 82,740,093**	**$ 29,310,480**	**$ 6,963,136**	**$ 17,649,008**	**$ 24,714,449**

[1] The estimated project costs that were developed in 2019 dollars were then escalated at 2% per year from base.

Recommended Funding Plan for Phases I and II

The recommended funding plan for Phases I and II (through FY 2030) includes the following sources:

- ✓ FAA AIP Grants (Entitlement and Discretionary funds)
- ✓ Passenger Facility Charges (PFCs)
- ✓ ADOT – Aeronautics Division Grants
- ✓ Member Government Contributions
- ✓ Other Funds

In developing the CIP funding plan, the eligibility of each capital project was established to make the best use of all the Airport's federal and state funding resources. The Airport's AIP entitlement grants through FY 2030 were projected based on the enplanement forecast and matched against the anticipated AIP-eligible project costs. AIP-eligible costs in excess of projected AIP entitlement funds were considered for AIP discretionary funding, based on the nature of each project. PFC funding was identified for all projects meeting the FAA's eligibility and were subject to the projected availability of PFC revenues. ADOT grant funding was assumed to be used for a matching portion of AIP eligible projects and other select projects. Member Government Contributions are assumed to fund a portion of the projects that are not eligible for AIP or PFC funding. The financial analysis includes a projection of PMGAA's Operating Fund cash flow generated from on-going operations, which was used as a basis for determining the availability of monies from the Operating Fund for funding a portion of the capital project costs if another assumed funding source is unavailable

Table 7-2: Sources and Uses of Capital Funding summarizes the CIP sources and uses by project type. The largest funding sources are AIP grants, which are estimated to fund 59.0 percent of the total CIP costs. PFCs are projected to fund a total of 15.3 percent, followed by 9.2 percent from Member Government Contributions, 3.6 percent from ADOT grants, and the remainder from other funds. The largest uses of CIP funding are estimated for runway and taxiway projects, and access roads totaling approximately 60.0 percent and 9.5 percent, respectively, of total estimated CIP costs.

Table 7-2: Sources and Uses of Capital Funding

Sources of Capital Funding	Phase I 2021 - 2025	Phase II 2026 - 2030	Total
AIP Entitlements	$ 14,763,618	$ 15,440,660	$ 30,204,278
AIP Discretionary	54,930,331	27,809,762	82,740,093
PFC Paygo	22,222,080	7,088,400	29,310,480
ADOT Grants	4,840,037	2,123,099	6,963,136
Member Contributions	10,133,907	7,515,101	17,649,008
Other	7,440,409	17,274,040	24,714,449
Total Sources	**$ 114,330,382**	**$ 77,251,062**	**$ 191,581,444**
Uses of Capital Funding	**Phase I 2021 - 2025**	**Phase II 2026 - 2030**	**Total**
Runway/Taxiway Projects	$ 67,534,800	$ 47,496,620	$ 115,031,420
Terminal Improvements	15,128,451	-	15,128,451
Parking	691,600	-	691,600
Fuel Farm	-	3,812,102	3,812,102
Apron Rehabilitation	603,680	6,062,400	6,666,080
Access Roads	18,149,771	-	18,149,771
ARFF	-	1,026,000	1,026,000
Other Projects	12,222,080	18,853,940	31,076,020
Total Uses	**$ 114,330,382**	**$ 77,251,062**	**$ 191,581,444**

[1] The assumed AIP Discretionary funding is based on the FAA's funding criteria and priority system.

FAA AIP Grants

AIP grants are administered to construct and maintain infrastructure projects that increase the capacity, safety, and security at airports across the United States. The FAA issues either entitlement or discretionary grants for projects. Entitlement grants are awarded based on a formula that considers the number of passengers using the Airport. The FAA awards discretionary grants based on established funding priorities and airport management's discretion. ***Table 7-3: Projected AIP Entitlements*** presents the projections for AIP entitlement grants for IWA covered in the forecast period. The funding plan assumes that a total of $30.2 million in entitlement funding and $82.7 million will be awarded in discretionary funds.

Table 7-3: Projected AIP Entitlements

AIP Entitlement Cash Flow	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Enplanements [1]	759,033	850,292	884,531	920,149	957,201	995,745	1,015,961	1,036,587	1,057,632	1,079,105	1,101,013
$7.80 for first 50,000 Passengers	$ 390,000	$ 390,000	$ 390,000	$ 390,000	$ 390,000	$ 390,000	$ 390,000	$ 390,000	$ 390,000	$ 390,000	$ 390,000
$5.20 for next 50,000 Passengers	260,000	260,000	260,000	260,000	260,000	260,000	260,000	260,000	260,000	260,000	260,000
$2.60 for next 400,000 Passengers	1,040,000	1,040,000	1,040,000	1,040,000	1,040,000	1,040,000	1,040,000	1,040,000	1,040,000	1,040,000	1,040,000
$0.65 for next 500,000 Passengers	168,371	227,690	249,945	273,097	297,181	322,234	325,000	325,000	325,000	325,000	325,000
$0.50 for each passenger over 1 millior	-	-	-	-	-	-	7,981	18,294	28,816	39,552	50,506
Part A AIP Entitlements	$1,858,371	$1,917,690	$1,939,945	$1,963,097	$1,987,181	$2,012,234	$2,022,981	$2,033,294	$2,043,816	$2,054,552	$2,065,506
Part B AIP Entitlements [2]	$ 491,629	$ 432,310	$ 410,055	$ 386,903	$ 409,819	$ 418,016	$ 426,376	$ 434,903	$ 443,601	$ 452,474	$ 461,523
Total AIP Entitlements	$3,600,000	$3,636,000	$3,672,360	$3,709,084	$3,746,174	$3,783,636	$3,821,473	$3,859,687	$3,898,284	$3,937,267	$3,976,640
Capital Expenditures	$ -	$3,636,000	$3,672,360	$3,709,084	$3,746,174	$3,783,636	$3,821,473	$ -	$3,898,284	$3,937,267	$ -

1.) Enplanements used for AIP calculation have a 2 year delay. For example, 2018 enplanements are used for the 2020 AIP Entitlement calculation.

2.) Part B AIP Entitlements are distributed to nonhub primary airports from the AIP Entitlement Turnback at large and medium hub airports. This amount is grown by 2% beginning in 2024.

PFCs

PFCs are fees imposed by an airport based on enplaned passengers and are used for specific projects approved by the FAA. According to federal regulations, PFC projects must (1) preserve or enhance safety, security or capacity of the national air transportation system; (2) reduce noise or mitigate noise impacts resulting from an airport; or (3) furnish opportunities for enhanced competition between or among air carriers. PMGAA is currently authorized by the FAA to collect a PFC of $4.50 per enplaned passenger at IWA.

Since the inception of the PFC program, PMGAA has received cumulative approval to collect and use a total of approximately $42.7 million in PFCs. PMGAA's most recent application, approved in February of 2018, extends PMGAA's right to collect until July 1, 2026. PMGAA typically funds capital costs with the Operating Fund, and then repays the PFC eligible amount with PFCs.

Table 7-4: Projected Passenger Facility Charge (PFC) Revenue shows the projected PFC collections for the projection period. The funding plan assumes that PMGAA will submit one or more future PFC applications for PFC-eligible project costs as needed during the planning horizon. PMGAA estimates that approximately $10 million in PFCs will be available during Phase I, in addition to annual PFC collections, resulting from the cancellation of previously approved PFC projects. The CIP funding plan assumes that during Phase 1, PFCs will be applied to the Ellsworth Channel Relocation project, the Safety Management System project, and the Eastside Airport Terminal Access Roads project.

Table 7-4: Projected Passenger Facility Charge (PFC) Revenue

Calculation of PFCs	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PFC Fund Beginning Balance	$3,537,240	$8,304,874	$1,042,407	($3,798,270)	$1,568,806	$7,044,845	$12,632,060	$17,306,707	$23,123,090	$29,057,559	$29,047,775
Enplanements	884,531	920,149	957,201	995,745	1,015,961	1,036,587	1,057,632	1,079,105	1,101,013	1,122,933	1,145,289
PFC Rate	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50
Administration Fee	$0.11	$0.11	$0.11	$0.11	$0.11	$0.11	$0.11	$0.11	$0.11	$0.11	$0.11
PFCs Available	$4.39	$4.39	$4.39	$4.39	$4.39	$4.39	$4.39	$4.39	$4.39	$4.39	$4.39
Annual PFC Collections	$3,883,093	$4,039,455	$4,202,113	$4,371,321	$4,460,069	$4,550,618	$4,643,006	$4,737,269	$4,833,447	$4,929,675	$5,027,819

ADOT Grants

PMGAA management anticipates the use of ADOT grants as part of the Master Plan funding. ADOT grants are funds administered by the state for the purpose of assisting airports in funding various capital improvement projects. All projects funded with state grants must meet the FAA's eligibility criteria. For any project eligible for state funding, PMGAA receives 4.47 percent of the funding after the FAA grant. In addition, Project A2 Taxiway Whiskey reconstruction, and Project A7, Eastside Terminal Access Roads, are expected to receive 90 percent of project costs or design costs, respectively, from ADOT. It is assumed that approximately $7.0 million in state funding will be secured for the CIP projects.

Member Government Contributions

In each fiscal year, PMGAA receives a total contribution of $4.06 million from the Member Governments. The Member Government contributions, which can be used for operational expenses and capital expenses, are expected to continue at the same annual level throughout the planning period. PMGAA currently applies approximately $2.1 million per year for annual operating expenditures. PMGAA anticipates that it will continue to fund these expenditures throughout the planning period. It is assumed the annual expenditures will increase by the annual rate of inflation. The balance of the Member Government contributions will be used to fund capital expenditures that are not AIP- or PFC-eligible. The CIP Funding Plan assumes that approximately $1.9 million annual capital project costs will be funded from the Member Government contributions.

Operating Fund

After PMGAA satisfies all of its financial obligations for operations, the remaining funds flow to the Operating Fund. PMGAA's operating revenue pays for operating expenses. ***Table 7-5: Projected Operating Fund Cash Flow*** shows the projected available funds for the CIP projects, including the beginning balance of $22.5 million in the Operating Fund as of June 30, 2018. Based on the projections of operating revenues and operating expenses, as projected later in this chapter, it is projected that PMGAA will generate sufficient cash flow to fund CIP project costs that are not AIP or PFC eligible.

Other

Other funds include third party funding for specific projects, and funding sources that are not yet identified.

CFCs

A rental car CFC is a user fee that will be imposed by PMGAA on each rental car user. CFCs are only permitted to be used for projects or expenses that benefit the rental car users or the rental car companies. PMGAA currently charges a CFC of $2.50 per vehicle rental day. The fee is collected from the rental car customers by the rental car companies and remitted to PMGAA. The current fee is used for operation and maintenance costs of the rental car facilities. CFCs will be used to fund Project C7, Eastside Consolidated Rental Car Center (ConRAC) – Design/Construct, which is in Phase III of the Master Plan. CFCs are not shown on **Table 7-2** because this source of funding will not be used during Phase I or Phase II. PMGAA will perform an analysis to determine the appropriate CFC level to generate enough revenue to complete the ConRAC project.

Table 7-5: Projected Operating Fund Cash Flow

Calculation of Cash Flow	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Beginning Balance 1	$22,496,683	$23,498,460	$25,254,454	$27,338,854	$29,821,329	$32,359,855	$35,009,305	$37,723,655	$40,553,100	$43,446,936	$46,476,573
Operating Revenue	24,140,496	25,403,765	26,252,422	27,182,195	27,781,638	28,447,911	29,080,377	29,775,524	30,432,730	31,174,386	31,875,980
O&M Expenses	23,138,720	23,647,771	24,168,022	24,699,719	25,243,113	25,798,461	26,366,027	26,946,080	27,538,894	28,144,749	28,763,934
Net Operating Income	$ 1,001,777	$ 1,755,994	$ 2,084,400	$ 2,482,476	$ 2,538,526	$ 2,649,450	$ 2,714,350	$ 2,829,444	$ 2,893,836	$ 3,029,637	$ 3,112,046
Less: Capital Expenditures	-	-	-	-	-	-	-	-	-	-	-
General Fund Deposit/Withdrawal	$ 1,001,777	$ 1,755,994	$ 2,084,400	$ 2,482,476	$ 2,538,526	$ 2,649,450	$ 2,714,350	$ 2,829,444	$ 2,893,836	$ 3,029,637	$ 3,112,046
Ending Balance	$23,498,460	$25,254,454	$27,338,854	$29,821,329	$32,359,855	$35,009,305	$37,723,655	$40,553,100	$43,446,936	$46,476,573	$49,588,618

Future Lease Revenue

PMGAA plans to use lease revenue that it earns from tenants who use available land on the Airport's property (once it is developed) to fund a portion of the CIP costs. On the East Side of the Airport, there are approximately 700 acres of land. It is assumed that 200 of that acreage will be used for the future terminal project and parking. The remaining 500 acres of land is available to be used and leased to future tenants. It is assumed that it will take several years for this land to be developed, and therefore, PMGAA is not anticipating receiving any revenue from this land until FY 2031. In FY 2031 it is assumed that 25 percent of the available acreage will be leased, and that leased percentage will increase by 10 percent per year until it reaches a peak of 65 percent in FY 2035. It is assumed the percentage of leased space will remain at 65 percent for the remainder of the forecast period. The space will be charged per square foot equal to $0.55 escalated by 2 percent per year. In FY 2035, the first year with 65 percent of the space leased, it is estimated to generate approximately $10.5 million.

In addition, PMGAA has recently entered into an agreement with SkyBridge Arizona, an entity that is leasing 360 acres of Airport land. SkyBridge Arizona plans to develop the land for Mexican customs inspectors to pre-clear items shipped to Mexico. The inspectors will be based at the Airport and approve shipments for immediate delivery to Mexico. This will be the first American airport to pre-clear items being shipped to Mexico. PMGAA is leasing the space to SkyBridge Arizona at a discounted rate. For the first 3 years of the lease, PMGAA has agreed to not charge SkyBridge Arizona any rent for the land. Beginning in the fourth year of the lease, PMGAA will begin collecting $0.03 per square foot plus escalation, which will generate approximately $470,000 in FY 2022 as shown in ***Table 7-6: Projected Lease Revenue***. Beginning in FY 2026, SkyBridge will begin to pay an increased rent per square foot of $0.10 plus 2 percent escalation every year thereafter, and PMGAA is estimated to receive about $1.6 million per year plus escalation throughout the forecast period.

PMGAA plans to use these revenues to fund a portion of the cost of projects that are not eligible for funding from AIP grants, PFCs, or ADOT grants. Due to the long lead time anticipated for significant lease revenue to be generated, this funding source is not expected to be applied to any CIP project costs before Phase III, and it is therefore not shown on **Table 7-2**.

Table 7-6: Projected Lease Revenue

Calculation of Revenue	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
SkyBridge Acreage	360	360	360	360	360	360	360	360	360	360	360
SkyBridge Space Rented [1]	15,681,600	15,681,600	15,681,600	15,681,600	15,681,600	15,681,600	15,681,600	15,681,600	15,681,600	15,681,600	15,681,600
Rate per Square Foot [2]	$ -	$ -	$0.03	$0.03	$0.03	$0.03	$0.10	$0.10	$0.10	$0.11	$0.11
Rental Revenue	$ -	$ -	$470,448	$479,857	$489,454	$499,243	$1,568,160	$1,599,523	$1,631,514	$1,664,144	$1,697,427

[1] Assumes 43,560 square feet per acre.

[2] Rate per square foot is escalated at 2 percent per year except in FY 2022 and FY 2026. FY 2022 and FY 2026 rate are provided in the SkyBridge lease.

Airline Rates and Charges

PMGAA requires the airlines to pay rental and other fees for use of the Airport's premises. The airline pays a landing fee per 1,000 pounds of landed weight. PMGAA sets a landing fee each year, and as of September 1, 2019, the fee is $1.24 per 1,000 pounds. PMGAA has increased the landing fee by 3 percent per year; however, in an effort to maintain a competitive landing fee, PMGAA plans to increase the landing fee by 3 percent every other year. Non-signatory carriers are required to pay a 50 percent surcharge for use of the airfield. The non-signatory landing fee is currently $1.86. PMGAA's current Air Service Incentive Program waives certain fees for specified time periods of service start-up.

The airlines pay an aircraft terminal use fee for the use of the terminal facilities. Signatory carriers pay a per use fee of $50 per turn. The non-signatory carriers are required to pay a 50 percent surcharge for terminal use as well, and the current non-signatory terminal use fee is $75 per turn.

In addition, airlines are required to pay an aircraft parking fee that is charged to the carriers when an aircraft is in an aircraft parking position for longer than 3 hours. The fee is based on the size of the aircraft, and non-signatory carriers are charged a fee that includes a 50 percent surcharge.

Outstanding Long-Term Debt

In FY 2006, ADOT loaned PMGAA $3 million to finance the construction of a hangar and teaching facility at the Airport for Arizona State University's flight school. The loan has a 25-year term and a 4.77 percent interest rate. Arizona State is no longer using the hangar. PMGAA is selling the building to ATP Flight School, and PMGAA will maintain the ground lease.

In February 2012, PMGAA issued approximately $19 million in Special Facility Revenue Bonds. PMGAA used the bond proceeds to develop and construct an aircraft maintenance repair and overhaul facility. PMGAA entered into an agreement with the City of Mesa that states the City of Mesa will pay rent to PMGAA in an amount equal to the principal and interest of the bonds plus the Trustee's expenses. The principal and interest in FY 2018 totaled approximately $1.3 million. The City of Mesa subleases the facility to Able Engineering and Component Services.

Operating Expenses

The major categories of Operating Expenses are Personnel Compensation & Benefits, Contractual Services, Costs of Goods Sold, Repair & Maintenance, Supplies & Materials, Communication & Utilities, Insurance and Other. The largest expense category is Personnel Compensation & Benefits, which represented 41.1 percent in 2019[1]. Contractual Services is the second largest expense category representing 21.3 percent, and Costs of Goods Sold is third largest expense category, representing 21.0 percent.

Operating expenses increased from $16.6 million in 2015 to $20.4 in 2019, or by an average of 5.3 percent per year as shown in ***Table 7-7: Operating Expenses***. The change in each category will be discussed below. Operating expenses are projected to increase from $23.1 million in the 2020 Budget to $28.8 million in 2030 or by an average of 2.2 percent per year as shown in ***Table 7-8: Projected Operating Expenses***.

[1] All references to years in the remainder of this chapter represent PMGAA Fiscal Years.

Table 7-7: Historical Operating Expenses

Operating Expenses	Actual				Unaudited	CAGR
	2015	2016	2017	2018	2019	2015-2019
Personnel Compensation & Benefits	6,384,046	7,273,851	7,747,751	8,278,096	8,390,012	7.1%
Contractual Services	4,367,625	4,444,822	4,263,021	4,133,173	4,359,946	0.0%
Costs of Goods Sold	2,887,601	2,437,789	3,061,299	3,770,766	4,285,799	10.4%
Repair & Maintenance	766,767	959,140	770,648	727,035	677,743	-3.0%
Communications & Utilities	788,091	857,617	851,109	869,777	864,640	2.3%
Supplies & Materials	642,727	557,461	625,533	669,311	962,636	10.6%
Insurance	295,133	286,717	295,171	332,488	461,559	11.8%
Other	455,965	175,485	197,117	333,509	423,511	-1.8%
Total Operating Expenses before Depr	16,587,955	16,992,882	17,811,649	19,114,155	20,425,847	5.3%

Table 7-8: Projected Operating Expenses

Operating Expenses	Budget	Projected									
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Personnel Compensation & Benefit	$ 9,095,588	$ 9,295,691	$ 9,500,196	$ 9,709,200	$ 9,922,803	$10,141,105	$10,364,209	$10,592,221	$10,825,250	$11,063,406	$11,306,801
Contractual Services	5,342,541	5,460,077	5,580,199	5,702,963	5,828,428	5,956,654	6,087,700	6,221,630	6,358,505	6,498,393	6,641,357
Costs of Goods Sold	4,270,869	4,364,828	4,460,855	4,558,993	4,659,291	4,761,796	4,866,555	4,973,619	5,083,039	5,194,866	5,309,153
Repair & Maintenance	1,387,910	1,418,444	1,449,650	1,481,542	1,514,136	1,547,447	1,581,491	1,616,284	1,651,842	1,688,182	1,725,322
Supplies & Materials	971,523	992,897	1,014,740	1,037,065	1,059,880	1,083,197	1,107,028	1,131,382	1,156,273	1,181,711	1,207,708
Communications & Utilities	934,784	955,349	976,367	997,847	1,019,800	1,042,235	1,065,164	1,088,598	1,112,547	1,137,023	1,162,038
Insurance	475,704	486,170	496,865	507,796	518,968	530,385	542,054	553,979	566,166	578,622	591,352
Other	659,800	674,315	689,150	704,312	719,807	735,642	751,826	768,367	785,271	802,547	820,203
Total Operating Expenses	$23,138,720	$23,647,771	$24,168,022	$24,699,719	$25,243,113	$25,798,461	$26,366,027	$26,946,080	$27,538,894	$28,144,749	$28,763,934

Personnel Compensation & Benefits

Personnel Compensation & Benefits is the largest category of operating expenses, which increased approximately $2.0 million over the historical period. During the historical period, increases were the result of PMGAA hiring additional full-time equivalents, annual merit increases, increased healthcare costs (including initiation of Health Savings Accounts), and increased Arizona State Retirement System rate. Personnel Compensation & Benefits are budgeted to continue to grow to $9.1 million in 2020 as the stated rates are expected to continue to increase. Salaries are projected to grow at the rate of inflation (2.2 percent) over the next 20 years.

Contractual Services

Contractual Services are the second largest category of operating expenses, for which expenses were relatively flat during the historical period. Contractual Services ranged from a low of $4.1 million in 2018 to a high of $4.4 million in 2016. Contractual Services are budgeted to increase to $5.3 million in 2020 because of the City of Mesa's annual increase in Fire and Police protection costs and PMGAA's plan to hire a security master plan consultant. Contractual Service expenses are projected to increase by an average of 2.2 percent per year to $6.6 million in 2030.

Costs of Goods Sold

Costs of Goods Sold (the costs associated with purchasing fuel), increased from $2.9 million in 2015 to $4.3 million in 2019. The increase was driven by increased fuel costs and PMGAA purchasing more fuel. Costs of Goods Sold are budgeted to remain relatively flat at $4.3 million in the 2020 Budget. This category is projected to increase at the 2.2 percent rate of inflation to $5.3 million in 2030.

Repair & Maintenance

Repair & Maintenance expenses fluctuated during the historical period. This category increased from approximately $767,000 in 2015 to $959,000 in 2016, mainly due to increased spending for parking equipment repairs, tire replacements, more electrical work, more lighting work and fire protection repairs. Repair & Maintenance expenses decreased to approximately $771,000 in 2017, $727,000 in 2018, and $678,000 in 2019. Most of the fluctuations in this category are a result of increases and decreases in paving repair and maintenance costs. Repair & Maintenance expenses are budgeted to increase to $1.4 million by 2020 and projected to increase by an average of 2.2 percent per year to $1.7 million in 2030.

Supplies & Materials

Supplies & Materials expenses increased by an average of 9.3 percent per year from approximately $643,000 in 2015 to $963,000 in 2019. The majority of the increase occurred in 2019. The increased expenses in 2019 were a result of the installation of the Airport's common use system software and the associated support for the system. In addition, PMGAA purchased improved monitors and computers. Supplies & Materials are budgeted to increase to $971,000 in the 2020 Budget and projected to increase at the rate of inflation to $1.2 million in 2030.

Communications & Utilities

Communication & Utilities expenses increased by an average of 2.3 percent per year from $788,000 in 2015 to approximately $865,000 in 2019. This expense category is budgeted to continue to increase to approximately $935,000 in 2020. PMGAA needed to increase the band width for the public Wi-Fi system in the terminal, which has driven the increases. Communication & Utilities expenses are projected to increase by an average of 2.2 percent per year to $1.2 million in 2030. Recent energy efficiency improvements completed by PMGAA may be able to offset some increases.

Insurance

Insurance expenses increased from $295,000 in 2015 to approximately $462,000 in 2019. The majority of the increase occurred in 2019 as a result of workers compensation expenses being moved from fringe benefits to the insurance category. Insurance expenses are budgeted to increase to $476,000 in the 2020 Budget. The 2020 Budget includes a 20 percent increase in the workers' compensation premium and an 18 percent increase in the aviation general liability insurance, as well as added coverage for cyber insurance. Insurance expenses are projected to continue to increase to approximately $591,000 in 2030.

Other

The Other expenses category includes bad debt, dues, real estate lease, training, travel, and revenue sharing expenses. Other expenses fluctuated during the historical period, decreasing from $456,000 in 2015 to $175,000 in 2016. Other expenses then increased to $197,000 in 2017, $333,000 in 2018, and $423,000 in 2019. Other expenses are budgeted to increase to $660,000 in 2020 because of a real estate commission of $132,500 and a revenue sharing increase of approximately $119,000. Other expenses are projected to increase at the rate of inflation to approximately $820,000 in 2030.

Operating Revenues

PMGAA receives revenue from Aircraft landing fees, aircraft parking fees, airline leased space in the terminal, fuel flowage fees, fuel sales, aeronautical services sold, concessions, non-aeronautical leased space, parking & ground transportation, rental car fees, and non-aeronautical services sold. The recent five-year historical trend for years 2015 to 2019 for the various revenue sources are discussed below, followed by the projections of revenues sources for 2020 and subsequent years.

Table 7-9: Historical Operating Revenues presents a summary of the historical revenues from 2015 to 2019. Total Operating revenues increased from $17.3 million in 2015 to $24.5 million in 2019 or by an average of 9.1 percent. ***Table 7-10: Projected Operating Revenues*** presents a summary of the projected revenues from 2020 to 2030. The revenues are projected to increase at an average annual growth rate of 2.6 percent during the forecast period.

Table 7-9: Historical Operating Revenues

Operating Revenues	Actual				Unaudited	CAGR
	2015	2016	2017	2018	2019	2015-2019
Aeronautical Operating Revenue						
Landing Fees	$ 797,138	$ 928,136	$ 1,029,695	$ 1,038,400	$ 1,248,257	11.9%
Aircraft Parking	221,264	227,370	306,137	314,196	250,633	3.2%
Aeronautical Lease Revenue	2,038,326	2,072,837	2,207,633	2,836,857	3,034,813	10.5%
Fuel Flowage Fees	562,284	587,726	605,837	669,927	695,513	5.5%
Fuel Sales	4,109,547	3,775,104	4,709,918	5,486,991	6,508,544	12.2%
Aeronautical Services Sold	3,408,871	4,173,055	4,097,234	4,826,243	4,719,334	8.5%
Subtotal - Aeronautical Revenue	$ 11,137,430	$ 11,764,228	$ 12,956,454	$ 15,172,614	$ 16,457,094	10.3%
Non-Aeronautical Operating Revenue						
Concessions	$ 544,449	$ 517,649	$ 593,461	$ 751,961	$ 885,214	12.9%
Non-Aeronautical Lease Revenue	1,101,360	986,472	1,215,066	1,247,131	1,212,893	2.4%
Parking & Ground Transportation	2,586,950	2,875,633	2,997,136	3,112,249	3,581,273	8.5%
Rental Car Fees	1,828,288	1,889,125	1,905,319	2,022,022	2,123,745	3.8%
Non-Aeronautical Services Sold	112,255	86,868	66,486	58,178	277,817	25.4%
Subtotal Non-Aeronautical Revenue	$ 6,173,302	$ 6,355,747	$ 6,777,468	$ 7,191,541	$ 8,080,942	7.0%
Total Operating Revenue	$ 17,310,732	$ 18,119,975	$ 19,733,922	$ 22,364,155	$ 24,538,036	9.1%

Table 7-10: Projected Operating Revenues

Operating Revenues	Budget	Projected									
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Aeronautical Operating Revenue											
Landing Fees	$ 1,415,316	$ 1,507,269	$ 1,558,442	$ 1,659,693	$ 1,691,444	$ 1,775,509	$ 1,810,824	$ 1,893,435	$ 1,922,262	$ 2,010,189	$ 2,041,028
Aircraft Parking	262,800	273,382	278,933	284,486	290,261	296,154	302,167	308,302	314,561	320,823	327,211
Aeronautical Lease Revenue	3,101,190	3,569,211	3,640,383	3,713,262	3,781,680	3,851,572	3,922,971	3,995,910	4,070,420	4,147,085	4,225,409
Fuel Flowage Fees	711,277	735,989	761,560	788,019	801,156	814,513	828,091	841,896	855,932	871,454	887,259
Fuel Sales	6,128,003	6,340,911	6,561,217	6,789,176	6,902,359	7,017,428	7,134,415	7,253,353	7,374,274	7,508,010	7,644,171
Aeronautical Services Sold	4,840,195	4,946,679	5,055,506	5,166,727	5,280,395	5,396,564	5,515,288	5,636,625	5,760,630	5,887,364	6,016,886
Subtotal - Aeronautical Revenue	$16,458,781	$17,373,442	$17,856,040	$18,401,364	$18,747,296	$19,151,740	$19,513,757	$19,929,520	$20,298,079	$20,744,926	$21,141,964
Non-Aeronautical Operating Revenue											
Concessions	$ 794,263	$ 844,423	$ 897,751	$ 954,447	$ 995,249	$ 1,037,795	$ 1,082,159	$ 1,128,420	$ 1,176,659	$ 1,226,487	$ 1,278,425
Non-Aeronautical Lease Revenue	1,080,318	1,104,085	1,128,375	1,153,199	1,178,569	1,204,498	1,230,997	1,258,079	1,285,757	1,314,043	1,342,952
Parking & Ground Transportation	3,735,800	3,886,231	4,042,719	4,205,509	4,290,890	4,378,005	4,466,888	4,557,576	4,650,105	4,742,683	4,837,104
Rental Car Fees	1,911,894	2,032,636	2,161,004	2,297,479	2,395,693	2,498,106	2,604,898	2,716,254	2,832,371	2,952,313	3,077,334
Non-Aeronautical Services Sold	159,440	162,948	166,533	170,196	173,941	177,767	181,678	185,675	189,760	193,935	198,201
Subtotal Non-Aeronautical Revenu	$ 7,681,715	$ 8,030,323	$ 8,396,382	$ 8,780,831	$ 9,034,343	$ 9,296,171	$ 9,566,620	$ 9,846,004	$10,134,651	$10,429,460	$10,734,016
Total Operating Revenue	$24,140,496	$25,403,765	$26,252,422	$27,182,195	$27,781,638	$28,447,911	$29,080,377	$29,775,524	$30,432,730	$31,174,386	$31,875,980

Aeronautical Revenues

Aeronautical Revenues include Aircraft Landing Fees, Aircraft Parking Fees, Aeronautical Lease Revenue, Fuel Flowage Fees, Fuel Sales, and Aeronautical Services Sold. Aeronautical revenues increased by an average of 10.3 percent per year from $11.1 million in 2015 to $16.4 million in 2019 and are budgeted to increase to $16.4 million in the 2020 Budget. Aeronautical revenues are projected to increase by an average of 2.5 percent per year to $21.1 million in 2030.

Landing Fees

Landing Fees increased by an average of 11.9 percent from $797,000 in 2015 to $1.2 million in 2019. The increase in landing fees is a result of increased activity at the Airport and an increase in the landing fee to $1.24 on April 1, 2019. This was the first increase in the landing fee since July 1, 2015. Landing fees are projected to increase from $1.4 million in 2020 to $2.0 million in 2030. The increase is driven by increased airline activity and an increased landing fee, which is expected to be increased by 3 percent every other year of the forecast period.

Aircraft Parking Fees

Aircraft parking fees fluctuated during the historical period. Aircraft parking fees increased from approximately $221,000 in 2015 to $227,000 in 2016, $306,000 in 2017, and $314,000 in 2018. Aircraft parking fees then decreased to approximately $251,000 in 2019 because of the demolition of a hangar. These fluctuations also occurred because of declining regional jet parking. Aircraft parking fees are budgeted to increase to $263,000 in 2020 and are projected to grow at the same rate as aircraft landings to $327,000 in 2030.

Aeronautical Lease Revenue

Aeronautical lease revenue includes terminal space used by the airlines, hangar space, office space and other facilities used by the airlines. This category increased by an average of 10.5 percent per year from $2.0 million in 2015 to $3.0 million in 2019. The majority of the increase occurred in 2018, when a tenant paid PMGAA $370,000 to extend its ground lease for an additional 10 years. This category is budgeted to increase to $3.1 million. Aeronautical lease revenue is projected to increase to $4.2 million in 2030.

Fuel Flowage Fees

Fuel flowage fees increased from $562,000 in 2015 to approximately $696,000 in 2019. Fuel flowage fees are budgeted to increase to $711,000 in the 2020 Budget and are projected to increase at the rate of aircraft landings to approximately $887,000 million in 2030.

Fuel Sales

Fuel sales increased from $4.1 million in 2015 to $6.5 million in 2019 or by an average of 12.2 percent per year. Fuel sales are budgeted to decrease to $6.1 million in the 2020 Budget. After 2020, fuel sales are projected to increase at the same rate as aircraft landings plus inflation to $7.6 million in 2030.

Aeronautical Services Sold

Aeronautical services sold are revenues from badging, cargo services, common use technology services, fire suppression fees, fuel storage fees, ground services equipment rental fees, ramp services, US Customs fees, and other miscellaneous services. This category increased by an average of 8.1 percent per year from $3.4 million in 2015 to $4.7 million in 2019. Aeronautical services sold increased to $4.8 million in the 2020 Budget and are projected to increase at the rate of inflation to $6.0 million in 2030.

Non-Aeronautical Revenues

Non-Aeronautical Revenues include Concessions, Non-Aeronautical Leased Space, Parking & Ground Transportation, Rental Car Fees, and Non-Aeronautical Services Sold. Non-Aeronautical revenues increased by an average of 7.0 percent per year from $6.2 million in 2015 to $8.1 million in 2019. Non-Aeronautical revenues are budgeted to decrease to $7.7 million in the 2020 Budget, but projected to increase to $10.7 million in 2030 or by an average of 3.4 percent per year.

Concessions

The Airport has food and beverage options that include Paradise Bakery & Café and Copper Plate - An American Grill. The Paradise Bakery & Café has a location between gates 6 and 7 and a kiosk in the baggage claim. This café offers baked goods, sandwiches, salads, coffee and other beverages that are prepared in customer view. The Copper Plate offers a casual dining experience and serves hamburgers, hot dogs, salads and desserts. The Copper Plate also offers a variety of beverages, beer, and wine. The Airport also has retail options to serve its passengers. Arizona Highways sells magazines, souvenirs, beverages, and snacks and is located at gates 3 and 4 with a kiosk at gates 9 and 10. The Phoenix sells local and national brand gifts that reflect the local area and attractions. Concessions revenues increased by an average of 12.9 percent from $544,000 in 2015 to approximately $886,000 in 2019, with significant increases occurring in 2017 and 2018 because of increased passengers. A new 2019 concessionaire contract will introduce new brands and expanded concession options as revenues are projected to increase at the same rate as enplanements plus inflation, to $1.3 million in 2030.

Non-Aeronautical Leased Space Revenues

Non-Aeronautical leased space revenues include land leases, space leased by rental car companies in the terminal, office space leased by non-aeronautical companies, and any other non-aeronautical leases. This revenue category increased by an average of 2.4 percent per year from $1.1 million in 2015 to $1.2 million in 2019. Non-Aeronautical leased space revenues are budgeted to be $1.1 million in the 2020 Budget and are projected to increase at the rate of inflation to $1.3 million in 2030. This projection does not include the projected lease revenue that is anticipated to be earmarked as a capital funding source for Phases III and IV of the CIP, as explained earlier in this chapter.

Parking & Ground Transportation

The Airport has several parking options for its passengers. The Hourly Parking Lot charges $1 per 30 minutes with a daily maximum charge of $18. The Daily Parking Lot also charges $1 per 30 minutes but has a maximum daily rate of $11. In addition, there are two economy parking lots, both of which charge $1 for the first 30 minutes. The uncovered economy lot has a maximum daily charge of $7, while the covered economy lot has a maximum daily rate of $11. Although Transportation Network Companies (TNCs) operate at the Airport (Lyft and Uber), PMGAA has not seen a decrease in parking revenue as a result of the TNC operations. PMGAA charges the TNCs a pick-up and drop-off fee of $2.00. In total, Parking & Ground Transportation revenues increased from $2.6 million in 2015 to $3.6 million in 2019 or by an average of 8.6 per year. Parking & Ground Transportation revenues are projected to increase at the rate of enplanements to $4.8 million in 2030.

Rental Car Revenues

Alamo National, Avis Rent A Car, Enterprise Rent-A-Car, and Hertz currently operate at the Airport. Rental Car revenues increased by an average of 3.8 percent per year from $1.8 million in 2015 to 2.1 million in 2019. Rental Car revenues are budgeted to be $1.9 million in the 2020 Budget and are projected to increase at the rate of enplanements plus inflation to $3.1 million in 2030.

Non-Aeronautical Services Sold

Non-Aeronautical Services Sold is revenue from internet fees, refuse fees, telephone fees, and miscellaneous services. This category increased from $112,000 in 2015 to approximately $278,000 in 2019. This category is projected to increase by 2.2 per year to $198,000 in 2030.

Projected Airline Cost per Enplaned Passenger

Airline cost per enplaned passenger (CPE) is an important metric that airports and airlines use to assess the cost of operating at a particular airport. As ***Table 7-11: Projected Cost per Enplaned Passenger*** shows, to calculate the CPE one divides the passenger airline revenues (passenger landing fee revenues and terminal rental revenue) by the total enplanements. The CPE is projected to increase from $2.59 in 2020 to $2.61 in 2030, based on the calculations presented in this chapter. However, other factors could cause the CPE to adjust over the projection period.

Table 7-11: Projected Cost per Enplaned Passenger

Cost per Enplaned Passenger	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Landing Fees	1,415,316	1,507,269	1,558,442	1,659,693	1,691,444	1,775,509	1,810,824	1,893,435	1,922,262	2,010,189	2,041,028
Terminal Revenues	872,572	883,352	894,506	906,047	911,777	917,603	923,526	929,548	935,670	942,441	949,335
Total Revenue	2,287,889	2,390,620	2,452,948	2,565,740	2,603,221	2,693,112	2,734,350	2,822,983	2,857,932	2,952,630	2,990,363
Enplanements	884,531	920,149	957,201	995,745	1,015,961	1,036,587	1,057,632	1,079,105	1,101,013	1,122,933	1,145,289
CPE	$ 2.59	$ 2.60	$ 2.56	$ 2.58	$ 2.56	$ 2.60	$ 2.59	$ 2.62	$ 2.60	$ 2.63	$ 2.61

Summary

The following points highlight the findings of the financial analysis contained in this section:

- ✓ The proposed CIP includes four phases of projects.
    - This financial analysis includes the first two phases (Phase I and Phase II). Phase I includes $134.7 million in project costs and Phase II includes $55.5 million in project costs.
    - Due to the complex nature of changing circumstances for CIP funding sources in the long term, estimates of the funding of capital costs beyond FY 2030 (Phase III and Phase IV) are considered speculative at this point, and therefore are not presented in this chapter.

- ✓ The funding plan is designed to maximize the receipt of FAA funding for eligible projects. Phases I and II of the CIP will be funded with AIP Grants, PFCs, ADOT grants, contributions from the member cities, monies from the Operating Fund and Other funds. The funding plan does not assume PMGAA will be issuing any debt to fund any project costs.

- ✓ Operating Expenses are projected to grow by 2.2 percent per year to $28.8 million in FY 2030. Operating Revenues are projected to grow by an average of 2.8 percent per year to $31.9 million in FY 2030.

- ✓ The CPE is projected to remain very low, growing only slightly during the projection period.

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